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C O N F I D E N T I A L SECTION 01 OF 02 FREETOWN 000322

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DEPARTMENT FOR AF/W (JHUNTER)

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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [PREL](#) [ASEC](#) [PINR](#) [SL](#)

SUBJECT: SIERRA LEONE CURRENCY TANKING FASTER THAN EXPECTED

REF: FREETOWN 262

Classified By: Ambassador June Carter Perry for reasons 1.4 (b/d)

¶1. (C) Summary: The Sierra Leone currency is suffering a continued significant decline. The Leone is trading at rates approaching 4,000 to USD 1.00, surprising independent analysts who had forecast the devaluation to go no further than a 3,600:1 ratio (reftel). Banking officials had been more pessimistic in their predictions and expected the Leone to hit 4,000:1, but not until the end of the calendar year. A banking contact stated that the swift decline is "alarming," and being driven by the unregulated black market. The Minister of Finance stated during an August 11 meeting that he was concerned, but reiterated previous comments that the Leone is falling slower than other currencies in the sub-region, and that currency auctions should help the situation. Commercial banks, however, are more pessimistic, and warn that the Leone could continue to decline. Against a backdrop of rising commodities prices and the usual financial strain brought about by the rainy season, this could have a deleterious impact on Sierra Leone's stability. End Summary.

¶2. (U) The Sierra Leone currency has lost nearly twenty percent of its value against the U.S. dollar in the last few months, far faster than expected. The exchange rate is billed as a floating one, but private bank contacts report that the Central Bank tends to use some discretion in establishing it. With the downturn in the exporting sectors and the continued dearth of foreign exchange, the Bank can no longer afford to set the exchange rate within the limits deemed political desirable (Note: Contacts stated that the Bank likes to keep the rate between 3,000:1 and 3,300:1. The Central Bank's current buying rate for U.S. dollars is 3,311, and selling at 3,378. End Note). The commercial banks have a "gentlemen's agreement" with the Central Bank to follow their exchange rate, but with the black market rate as high as 3,800:1, the banks can no longer afford it. Commercial bank rates are currently ranging between 3,505 and 3,720 for selling dollars. Unregulated foreign exchange bureaus, from which street traders operate, are buying dollars for 3,700 and selling for 3,800. Private travel agencies are buying dollars at 3,850.

¶3. (C) Contacts within the banking sector expressed some alarm at the speed of the devaluation. It is hurting them significantly, as they report their holding in dollars: a drop in the value of the Leone results in a loss of equity for them. They all stated their lack of faith in the Central Bank to control the situation in the face of declining exports, increasingly expensive imports, and falling remittances. Banks are not permitted to participate in the currency auctions unless representing individual buyers, and contacts scoffed at the minimal impact the auctions have had throughout the financial downturn. Most had no reply when asked what the Central Bank could do differently, though some mentioned that an open currency position may be required if the situation becomes more desperate. Most felt, however, that a quasi-dollarization of the Leone is too risky in this

market.

¶4. (C) Interestingly, several contacts pointed to the cocaine seizure in July, 2008, as the start of the decline in foreign exchange. They noted that this came after several of the mining firms experienced a downturn, and while that the drop in exports definitely impacted the economy, the loss of a cash-intensive "business" like narco-trafficking had an even larger impact than the decline of legitimate commerce. Contacts wondered if seeing an improvement in the foreign exchange available in the market would be an indicator that transnational organized crime was surging in Sierra Leone.

¶5. (C) Prices continue to rise due to the global market and the cost of importing goods. Traders have hiked prices between 10 and 15% over the past few months to compensate for the drop in the Leone, much to the consternation of consumers. A number of media articles have been published complaining that merchants are using the currency situation as an excuse to "mercilessly" raise their prices. The public appears to have a hard time understanding that purchasing power is dropping here relative to other countries, and that prices must be raised accordingly. Given the historical animosity between Sierra Leoneans and an import community dominated by the Lebanese, some of the articles have been openly hostile and mildly threatening. In past years Lebanese shops have been targeted by looters claiming that the prices are deliberately set high to gouge consumers, and there could be a resurgence of this kind of behavior as the economy continues to decline. Desperation could also result in an increase in crime.

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¶6. (C) Comment: Sierra Leone's Central Bank has virtually no monetary tools to address the ongoing decline of the Leone, and the country's typically weak economy is showing signs of further deterioration. The Minister of Finance has been repeatedly vague about his intentions, and seems to be focusing his efforts instead on the upcoming consultative donor group meeting in November. He has repeatedly stated that the Leone is falling at a slower rate than other currencies in the sub-region, but fails to account for the disproportionate negative impact any devaluation has on Sierra Leone versus others, given this country's almost complete reliance on imports. Ambassador Perry was recently approached by a mid-level State House representative about the need for an "injection of funds" to the tune of USD 2 billion, implying that the USG should contribute at least in part, if not in full. The bleak economic situation has yet to result in any overt decay in the security situation, but if conditions continue to deteriorate and defy experts' predictions, it is unlikely that the security sector here will be able to effectively grapple with the resulting increases in crime and instability. End Comment.
PERRY